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CORPORATE PARTICIPANTS

A. Scott Moore *Anadarko Petroleum Corporation - VP of Worldwide Marketing*

Bradley J. Holly *Anadarko Petroleum Corporation - SVP of U.S. Onshore Exploration and Production*

Christopher O. Champion *Anadarko Petroleum Corporation - CAO, SVP and Controller*

Daniel E. Brown *Anadarko Petroleum Corporation - SVP of International and Deepwater Operations*

Darrell E. Hollek *Anadarko Petroleum Corporation - EVP of Operations*

Ernest A. Leyendecker *Anadarko Petroleum Corporation - EVP of International & Deepwater Exploration*

R. A. Walker *Anadarko Petroleum Corporation - Chairman, CEO and President*

Robin H. Fielder *Anadarko Petroleum Corporation - VP of IR*

CONFERENCE CALL PARTICIPANTS

Arun Jayaram *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Brian Arthur Singer *Goldman Sachs Group Inc., Research Division - MD and Senior Equity Research Analyst*

Charles A. Meade *Johnson Rice & Company, L.L.C., Research Division - Analyst*

David Martin Heikkinen *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

David R. Tameron *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Douglas George Blyth Leggate *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Edward Westlake *Crédit Suisse AG, Research Division - MD and Co-Head of the Global Equity Oil and Gas Research*

Evan Calio *Morgan Stanley, Research Division - MD*

Jeffrey Leon Campbell *Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration and Production, and Oil Services*

John P. Herrlin *Societe Generale Cross Asset Research - Head of Oil and Gas Equity Research and Equity Analyst*

Michael Stephen Scialla *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Paul Benedict Sankey *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Robert Alan Brackett *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Robert Lee Christensen *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Ryan Todd *Deutsche Bank AG, Research Division - Director*

Scott Michael Hanold *RBC Capital Markets, LLC, Research Division - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Anadarko Petroleum Corporation First Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Robin Fielder, Vice President, Investor Relations. Please go ahead.

Robin H. Fielder - *Anadarko Petroleum Corporation - VP of IR*

Thanks, Kerry. Good morning, everyone. We're glad you can join us today for Anadarko's First Quarter 2017 Conference Call. I'd like to remind you that today's presentation includes forward-looking statements and certain non-GAAP financial measures. We believe our expectations are based

on reasonable assumptions. However, a number of factors could cause results to differ materially from what we discuss. We encourage you to read our full disclosure on forward-looking statements and our SEC filings and the GAAP reconciliations located on our website and attached to yesterday's earnings release. Additionally, we will have provided detail in the first quarter operations report on our website. At this time, I'll turn the call over to Al Walker and we'll open the lines in a few minutes for Q&A with Al and the executive team following his remarks. Al?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Thanks, Robin, and good morning, everyone. As I've said previously, we are saddened by the tragic events in Colorado, and our thoughts are with the Martinez and Irwin families during this difficult time. We are committed to the public trust and safety of the communities where we operate. We will cooperate with the ongoing investigations to fully understand the fire district's preliminary conclusions and will engage all possible resources as final determinations are reached in this matter.

So with that, let's turn to the first quarter. And this is the first time that we've actually been able to give you a clear picture of what our portfolio can do. Most importantly, it gives you insight into how we will create nearer- and longer-term value. During the first 3 months of the year, on a divestiture-adjusted basis, we increased oil volumes to an all-time high, growing 26% year-over-year. Our margins improved by more than 100% due to an increased liquids mix and higher commodity prices from the prior year.

Cash generation was strong with more than $1 billion in cash from operations. And our financial flexibility and strength were improved by completing divestitures totaling almost $3 billion. As we move further into the year, we will consider using certain of the cash on our balance sheet to maintain or accelerate upstream spending and fund our midstream buildout. We're doing this in order to enhance the productivity of our onshore assets.

Our strong liquidity position affords us the flexibility to manage through the current commodity price volatility with a focus on the future. Operationally, our activities in the 3 Ds are off to a strong start in 2017. In the Delaware Basin, we continue to capture as many open operator leases as possible and expect to achieve our 70% operatorship target later this year with our current partnership, with 15 rigs currently running in the basin, and we're planning to transition to pad development in the second half of the year where we believe we can do this effectively through our established infrastructure in this basin.

In the DJ, we're running 6 rigs where we're improving the efficiency and the effectiveness of our cycle times. The asset teams have been leveraging our Advanced Analytics & Emerging Technology group, or the AAET, to test completion designs with the goal of maximizing the net present value per section. We're looking forward to talking more about these results in the coming months as well as other developments our A team is working on.

In the deepwater Gulf of Mexico, we achieved record production levels aided by a strong performance from Caesar/Tonga and new wells at Heidelberg and K2. This, along with other successes we're having with our tieback inventory, makes us feel very good about the future in the Gulf of Mexico. The first quarter results are a reflection of the simpler, more streamlined model we discussed with you in detail in March. We're very pleased with the way in which the onshore assets are performing, and we believe with this, we have a very clear path to creating value and growth that we have targeted for you in the past.

With that, I'm going to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Doug Leggate of Bank of America Merrill Lynch.

Moving on to the next question. The first question will now come from Ed Westlake of Crédit Suisse.

Edward Westlake - *Crédit Suisse AG, Research Division - MD and Co-Head of the Global Equity Oil and Gas Research*

Everyone's thoughts will go out to the family of the tragedy, and we do have to ask questions. You've got thousands of wells in the area. Obviously, you're doing regular inspection work to make sure that the integrity is there. And clearly, this is an early phase investigation as to why perhaps the integrity of the line was not there, but maybe some questions around that. How many wells do you survey each year and what's the cost of surveying the well? I'm trying to get some idea of the financial implications. And then we hear that remediation is about $100,000 a well. I don't know if that's the right number, and I guess it's very early. But given your inspection records, appreciate the team is going to be scrambling. What percentage of wells do you think might be needing some remediation based on what you've learned thus far in the last few weeks?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Thank you for the question. I appreciate your sensitivity that you expressed for the families involved here. We, too, as I said earlier, our thoughts are with them. Last evening, we received, like everyone else in our industry, the order from the governor, so I think it's a little early for me to be able to give you a comment on that, and I hope you just appreciate that we're working through that like everyone else in the industry at this point.

Edward Westlake - *Crédit Suisse AG, Research Division - MD and Co-Head of the Global Equity Oil and Gas Research*

Okay. So too early to comment. Well, then, second question on the Delaware. There you have some fantastic rock potential. You've been using a sort of an inefficient approach because you're trying to secure operatorship, which makes sense for the longer term, and also infrastructure, obviously, is coming. When do you think that asset is going to get into a sort of truly optimized development mode? Now I appreciate we're -- you measure the business in years, so I'm looking for like quarters here in the answer if that's possible.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I understand the question. I think you all -- I'll hark back to the comments I gave you in my prepared remarks, and that is we at this point believe that we will move into a development mode in the second half of the year with that development coming off pad drilling and being able to do that as close as possible to existing infrastructure to take advantage and leverage off of that. So I think that is a coming attraction in the second half of the year. And as I made additional comments earlier, to the extent certain of the cash that we have on the balance sheet can be deployed to improve and enhance that productivity, we will continue to consider that.

Operator

The next question comes from Doug Leggate of Bank of America Merrill Lynch.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Al, I apologize. The gremlins broke my phone this morning.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

I got a couple of questions if I may. Al, you have been one amongst the more constructive, I guess, CEOs around the longer-term outlook for oil prices, but yet you've written off Shenandoah. And I don't know if that's specific to Shenandoah or if it's indicative of how you see the relative economics of deepwater developments, but I just wondered if you could show your updated thoughts, maybe a little bit of color around Shenandoah specifically. And really what I'm trying to get at strategically where does exploration stack up in terms of lower for longer oil price? Is it still competitive to drill wells in Colombia and West Africa? And I have got a follow-up, please.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

I think I've been pretty vociferous through the first 4, 5 months or first 4 months, rather of the year where I've had the opportunity to remark on what I think is the outlook for greenfield development in the Gulf. And I think I've made the comment time and again that we see that as a very challenged equation in a world that's bounded by $50 to $60 oil. Consequently, as we look at Shenandoah from an accounting perspective, really, the actions we took there were driven by the accounting methodology. And the fact that we are on a 180-day clock, I think, also gives you some insight into our views as to -- additional drilling that we and our partners might find on the horizon. So the charge if I can address that is simply accounting methodology, which we're happy to walk you through if that's a question. But philosophically, I'm not sure we are viewing this any differently than we have in the past. And, certainly, my public comments in the past will tell you that in a $50 to $60 world, we always felt like greenfield development in the Gulf, in particular, was fairly challenged. And consequently, when you got the portfolio that we do and the opportunity to move capital around, our ability to look at our portfolio and the diversity it provides us is frankly a real strength. So the actions that we took and our current views in Shenandoah while we're continuing to evaluate exactly what the next steps ought to be aside from accounting conventions are ongoing. And as we know more, we'll certainly talk to you about that as we and our partners decide on the next steps.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

So I guess I'll use my follow-up to address the second part of my question, which is, obviously, it looks like you've had a fairly substantial success in Colombia but, of course, not to be silly about this, it seems the market is very short term, currently, and so spending capital in longer-dated projects doesn't seem to be getting any recognition in the market right now. So I'm just curious as to how you see the relative priorities of exploration as you move the rig over to West Africa and ultimately what you're seeing on in Colombia? Now what are there -- strategically, are your views shifting or you still believe the exploration is a key part of the Anadarko story?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I think I've made the comment and I appreciate the question, Doug, that we certainly see exploration creating option value that's very important to the long-term health of our company. As exhibited by our capital plan for this year, you can see the 3 Ds are the areas we're going to focus our capital. Exploration in the Gulf of Mexico will be related to tieback opportunities that compete very well for capital, but we still feel like some option values is needed for the future and so therefore, the things that you're seeing as invested in this year for the future. I think, given that type of compounded annual growth that we are projecting over the next 5 years for our oil, I think, we can do both. Certainly, the way we're allocating capital this year is very onshore U.S. and Gulf of Mexico-centric but not to the exclusion of creating future option value.

Operator

The next question comes from Brian Singer of Goldman Sachs.

Brian Arthur Singer - *Goldman Sachs Group Inc., Research Division - MD and Senior Equity Research Analyst*

One question on the cash taxes during the quarter and how that relates to asset sales. Current taxes were about $0.8 billion. You indicated I think $0.3 billion is still to be paid associated with the asset sales. Can you just talk about what drove the rest of cash taxes? And then more of the broader question of whether the cash taxes paid overall as part of the -- I might have said acquisitions, I meant asset sales -- but as part of the asset sales in the Marcellus and Eagle Ford were in line with your expectations and how you think about the balance sheet going forward.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I'm going to ask Chris Champion, our Chief Accounting Officer, to address your tax question. I guess based on your morning write-up, you thought the proceeds associated with the asset sales were below your expectation. I can say they met ours. I'll answer the second half of that question. And with that, I'll turn it over to Chris.

Christopher O. Champion - *Anadarko Petroleum Corporation - CAO, SVP and Controller*

Thanks, Brian, and thanks for your question. Your first part is correct. We feel like we'll be a cash taxpayer in the U.S. and Algeria, and those are the 2 components that comprise our current taxes. And what you're seeing in the first quarter is really just an accounting convention based off of our results in the quarter versus how we're required to allocate that through the year. And it turns out that 100% of our expected cash taxes are booked in the first quarter. So that is really driven by Marcellus and our Eagle Ford divestiture and then Algeria.

Brian Arthur Singer - *Goldman Sachs Group Inc., Research Division - MD and Senior Equity Research Analyst*

Great. And then along the lines of the improved balance sheet and, Al, we've asked and you answered this one before, but just as we continue to see more consolidation in the Permian Basin, in particular, one of the areas that you highlight, can you talk about the opportunity set out there and your willingness to use some of these proceeds for Permian or other acquisitions?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I don't think our priority for use of cash has changed since we've discussed this in March with our call at that time. Our primary objective here would be to use the cash that we have on hand to accelerate drilling and improve our midstream takeaway capacity that improves longer term our productivity from the existing leases. If we found ourselves, however, in an opportunity to pick up something, it would probably be acreage that allowed us to extend our laterals, so therefore, it would improve the assets and leases that we currently hold. And like everyone, we'll evaluate that on a case-by-case basis. But I'd say if we were looking at M&A in the Delaware Basin, Brian, it would be more from a standpoint of can we improve what we have by that acquisition, and that largely is going to have to do with either longer laterals or some sort of efficiency associated with our takeaway.

Operator

The next question comes from Arun Jayaram of JP Morgan.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

I was wondering, Al, if you could talk a little bit about the 2Q guide. I mean, I know you reiterated your full year guide, but the 2Q guide was a little bit below where The Street is at, and I just wondered if you could maybe comment on that as well as your confidence in reaching kind of your year-end growth targets in the Delaware and the DJ.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, actually, I appreciate you asking the question, Arun. As you know, we guide for a full year, and it's really left up to the respective individuals since they write their own research to do what they believe are our quarter-to-quarter results. Consequently, by reaffirming what we think we will see for the year, I think we're saying is that we're not really as worried as some about the sequential progression from first to second quarter. That progression was expected, and consequently, the performance we see, in particular, out of our onshore U.S. assets is quite strong, so there's no read-through of concern there. It's really more -- we don't guide quarter-to-quarter and respect the fact that that's a job that's difficult to do for those of you that write research on us and others. But from our perspective, this sequential decline was anticipated.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

And what was the driver of the sequential decline, Al?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I'm going to let Darrell address that if I can. It's really more related to maintenance.

Darrell E. Hollek - *Anadarko Petroleum Corporation - EVP of Operations*

Yes. Arun, that's really almost all related to maintenance here in the Gulf of Mexico and some of our bigger facilities. But again, to Al's point, that has been scheduled, and it's baked in our numbers all along. So it doesn't change our year-end guidance, but it was part of what we expected on a quarter-on-quarter basis.

Arun Jayaram - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Fair. Just my follow-up. Al, the market has shaved a couple billion dollars of equity value as the market has priced in some impacts to your DJ Basin, perhaps, inventory. What are your thoughts on the magnitude of this reaction, and what do you see -- I know it's early on in terms of the investigation -- as a bigger picture of impacts to the company and the industry in the State of Colorado?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I think we, like everybody else, are dealing with the results of the preliminary investigation as well as the orders that followed from the governor and the regulators. So I think to go beyond that at this point would be kind of difficult. Investors are certainly left to make their decisions based on the information they have. And at this point, we feel that the assets that we have will be the ones that are important to us. Beyond saying that I think there is -- they're important to us, I'm not really sure I'm in a position to say or answer to the question you're asking me specifically just because again we're dealing with this on a real-time basis. It's very fluid and the orders came out from the governor yesterday.

Operator

The next question comes from Scott Hanold of RBC Capital Markets.

Scott Michael Hanold - *RBC Capital Markets, LLC, Research Division - Analyst*

Maybe if I could turn back to the Permian and I think your guidance back about a month or so ago discussed averaging around 10 to 14 rigs. You're now up to 15. Is that just to accelerate the operator capture -- or operatorship capture? Or is there is something going on where you guys are using some of your capital really to start a little bit earlier to move into some more delineation or development?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I think as we told you in March, our first half of the year objective is to achieve this operatorship capture as the primary reason for our activity. And then as I commented in my prepared remarks, as we move to the second half of the year, that's where we're moving to the pad development drilling and trying to do that closer to infrastructure. So our expectations are that those activities will start to improve not only second half of the year volumes modestly, but it will probably have a bigger impact as we look to '18.

Scott Michael Hanold - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And then just specifically to the rig count, and with that 10 to 14 that you all discussed versus the 15 you're running now and what I'm trying to do is just trying to figure out are you guys putting a little bit more money to work than initially expected or do you sense you're still within that range of where you would have expected to be?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, I can say with some confidence at this time, we think the budget that we discussed with you back in March and the capital plan our boards approved is one that we're very comfortable with, and should we see opportunities in the second half of the year or later this year to increase that capital spend, we'll take that under consideration with our board, but we've not increased our capital spending expectation at this point.

Scott Michael Hanold - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. Understood. Understood. Maybe back to Shenandoah. Could you just generally discuss that number 6 well? Can you tell us generally how that changed your view, if any, of that project? And with respect to -- I guess, not -- obviously, we need to be in a better commodity price environment for these greenfield projects, but what else would you need to see to really get engaged to spend capital there again?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, let's be sure -- I know you know this because you're really good at what you do. Our decisions this quarter were driven by accounting convention. That by itself should not be a read-through for what we think about the asset, but we did have to take the actions that we did prescriptively. But maybe I can give -- have Ernie to talk a little bit about what he saw in the well. I think we and our partners are currently looking at what the pathway forward is, and so don't let the accounting convention lead you to an answer that's by itself singular.

Ernest A. Leyendecker - *Anadarko Petroleum Corporation - EVP of International & Deepwater Exploration*

Yes Scott. It's Ernie. I think it's -- we've written it up pretty clear in our ops report and our disclosures. We drilled the original well, which was designed to drill through the oil water contacts, and we did not see the oil water contacts in the well, so we backed up, and we sidetracked the well again towards the number 5 well where we had over 1,000 feet of pay looking for those oil water contacts again. And unfortunately, we did not get to completely prosecute the well to TD. We ran into some mechanical hold problems. We did see a partial section, so it was also inconclusive. And the challenges we've been having out there really are all related to try to image the structural fabric, and it's been one of our difficulties as we drill wells, we’ve found some surprises, some of them negative and some of them positive. So we felt it was appropriate really to stop and evaluate what our path forward would be. I think as we look at it today, it's probably a little premature to talk about what the next steps are and that path forward as we're still thinking through what those options are today.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Does that help? Because I really want to be clear. What we did for the quarter from an accounting standpoint should be divorced, if you will, from the way in which we're looking at it operationally and from an exploration standpoint.

Scott Michael Hanold - *RBC Capital Markets, LLC, Research Division - Analyst*

Absolutely. And certainly you've had some nice big discoveries there, so the resource looks like it’s there. It’s just a challenging commodity price environment. I understand.

Operator

The next question comes from Charles Meade of Johnson Rice.

Charles A. Meade - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

If I could perhaps, Ernie, just following up on that question on Shenandoah, there was something you said there. You mentioned that you saw a partial section. Is that -- that makes me wonder whether perhaps you encountered an unanticipated fault. Is that what we're talking about here? And that does make you go back to the drawing board and the overall structural map is that not the right interpretation?

Ernest A. Leyendecker - *Anadarko Petroleum Corporation - EVP of International & Deepwater Exploration*

Perhaps, I wasn't very clear about it, Charles. We didn't -- we saw just the top portion of the Wilcox. We didn't get through the entire Wilcox section, and we ran into mechanical problems.

Charles A. Meade - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

Got it. Got it. That makes sense. Thanks for that clarification, and then Al if I could perhaps make another run at the question that you fielded earlier on the sequential decline, all your points about us doing our own work on the quarterly rig numbers, those are all well received. But if -- could you perhaps talk a little bit more about what's going on in the Gulf of Mexico whether just how much is facility maintenance, how much is tie-ins of recent, either discoveries or appraisal wells and perhaps quantify what that quarter-over-quarter sequential decline is?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Yes. And I appreciate the redirect on the question. I'm going to ask Danny Brown if I can to help you a little bit with the answer simply because I think there is a lot of stuff going on in the Gulf of Mexico that's extremely positive, and I wouldn't want to leave you with any other impression, simply because the way we feel about the second quarter as it relates to the maintenance issues should absolutely be separated from the very positive drilling results. Danny, if you would?

Daniel E. Brown - *Anadarko Petroleum Corporation - SVP of International and Deepwater Operations*

This is Danny. I am -- but we do have a lot of rig -- very exciting things going on in the Gulf of Mexico currently. With respect to the sequential sort of quarter-on-quarter reductions we're seeing in volumes, it's really being split between upgrading our facilities in anticipation of some of these tiebacks that we're very excited about. So as we have to pull in new equipment, new risers, et cetera, we're going to have to take those platforms down to accomplish that type of work. So you've seen our very exciting well we drilled at Horn Mountain that we're pleased with. That's going to be on in the second quarter. That's going to require us to take the Horn Mountain facility down to get that -- get the riser work pulled in and to bring that onstream. So you're seeing some reductions in production volumes as a result of that, and then some is just maintenance. We've got other maintenance operations going on through several of our different facilities. This was always planned. This was always anticipated. Our full year expectations are unchanged, and we're just sort of marching through prosecuting the plan that we've always had.

Charles A. Meade - *Johnson Rice & Company, L.L.C., Research Division - Analyst*

That's helpful and makes sense. I know 2Q was a good time to do that work out there.

Operator

The next question comes from David Tameron of Wells Fargo.

David R. Tameron - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Al, in the DJ, if I look at the ops report, you guys referenced in there more fluids, tighter spacing, unfamiliar enhanced completions, I always thought the general, I guess, conventional wisdom was down where your acreage is, given the pressure and given some of the gas oil mix that the higher proppant wouldn't necessarily work. Is -- are you finding something different? Or can you just talk about what you guys are doing in the DJ as far as completion design?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Yes. If you don't mind, I'm going to let Brad address that because we're doing some pretty good things there, so it's an understandable question.

Bradley J. Holly - *Anadarko Petroleum Corporation - SVP of U.S. Onshore Exploration and Production*

Sure David this is Brad Holly. Just -- we're really excited about what we're seeing in the DJ because we have done over 1,000 wells out there. We've taken in all that data along with everything we've seen in the industry and really ran through our Advanced Analytics and looking at every component that makes up that fracture thing. We were working on increased fracture intensity, which is really we're trying to bust up the rock as much as possible. We have shrunk our staged spacing as well as increased our fluid volumes, and we're continuing to tweak that recipe. We did a few of those in the fourth quarter of 2016, and we started to do quite a few more of those in the first quarter of '17. So we put some of our early results out in the ops report, and we're continuing to watch results, but we're encouraged and excited about what we're seeing from the new completion design. We continue to tweak that, and we'll have more information as we get more production results.

David R. Tameron - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Okay. So you're not -- I want to say is it more fluid? Is it more sand? Any color you can give me there?

Bradley J. Holly - *Anadarko Petroleum Corporation - SVP of U.S. Onshore Exploration and Production*

We're certainly looking at more fluid, and I think we're playing with some of the other parameters and how they -- what combinations to pump these things on.

David R. Tameron - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Okay. Okay...

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

David, if I can just add I think one of the things you're seeing Anadarko do, one of the things you're seeing industry do is understand better how we can take our data and uses it to create more effective and efficient operations, and we certainly are doing that through our Advanced Analytics & Emerging Technology group. I think we as an industry and certainly as a company will start to be able to apply a lot of the data that we have had historically but use it differently in the way which we apply it to our operations.

David R. Tameron - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

That makes sense. And now back to the DJ, just obviously horrible situation with the incident out at Firestone. But if I think about -- you guys shut in 3,000 vertical wells, and I think you said at the time the production was 13 a day. If I start thinking about vertical production and just -- does it make sense -- economic sense when we start talking about whatever inspections or mediations or go forward basis, does it make sense to just shut some of those wells in from an economic standpoint regardless of what the investigation finds?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

David, the best way I can answer your question as the way I answered one earlier. We are like others in our industry responding to what the governor requested last evening, and I really can't answer your question at this point other than to say, last week, we announced and we shut in those 3,000 wells on abundance of caution at that time. That was taking 13,000 barrel equivalents off the market, of which about 3/4 is natural gas. So beyond that, I really don't know anything I can tell you relative to the question you asked me.

Operator

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The next question comes from Mike Scialla of Stifel.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Just wanted to follow up on David's question on the new completion design you're experimenting with in the DJ. It sounds like it's more fluid than proppant. Can you talk about the cost difference from your standard design at this point?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Again, I'll let Brad address that. I think you'll like his answer better than mine.

Bradley J. Holly - *Anadarko Petroleum Corporation - SVP of U.S. Onshore Exploration and Production*

Thanks for the question, Mike. This is Brad. As you can imagine, as Al mentioned in his opening comments, we're all about net present value per section, and so we look at that efficient frontier on what makes the most sense economically. And so as we've adjusted our completions, we're always looking to maximize that equation, and so we look at all of those different parameters. And as you can imagine, we're trying to get the very best well, the best NPV with the lowest cost possible. And so I think we look at all those parameters and put those in there and try to make that equation optimized.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

I want to switch over to the Delaware. I notice you put a slide in your presentation showing the various API gravity regimes in the basin. I just wanted to ask you about product prices in the Delaware, any concern there with any of the products oil, gas, NGL or condensate?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

I think Scott Moore can best address your question.

A. Scott Moore - *Anadarko Petroleum Corporation - VP of Worldwide Marketing*

I think discussing the key points to understand on the crude side of things is what's the gravity of the common stream you need to sell into facing the pipe. And for us, we have upper 40s, mid 40s kind of quality, and that gives us a WTI pricing, so we don't see pricing discounts that producers who have a light condensate type of product would see, and so I think we are blessed with the good geology that benefits from that. As far as Midland Basin and takeaway if there's a sufficient space right now and there is new pipe coming in and it's coming in about as fast as production is growing so we feel comfortable near term that the restructure will continue to match the pace of development by the industry, and that's really across the sector for crude NGL and natural gas. A little pressure in natural gas pricing as these higher cost pathways to market become utilized, as the premium pathways get more fully utilized but that's nothing material.

Michael Stephen Scialla - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

And can you talk about...

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

I might add just a little bit to Scott's comments. We certainly are being pretty aggressive at looking at options for how to evacuate all of our hydrocarbon stream out of that basin, working in particular with several companies that Scott made reference to in terms of just the fact there's a lot of activity that takeaway buildout. So I'd say like you've seen this before we're quite interested in seeing how we can use our anchor tenant position in any of these things that are going to come forward to be a big part of how that infrastructure is built out.

Operator

The next question comes from John Herrlin of Societe Generale.

John P. Herrlin - *Societe Generale Cross Asset Research - Head of Oil and Gas Equity Research and Equity Analyst*

Most things have been asked, but getting back to the brownfield work that you are doing in the Gulf of Mexico with the tie-ins. Could you give us a sense of what the cost thresholds are and kind of make a comparison to the onshore? And then how competitive are the operating costs now, given the dearth of activity and a lot of available equipment in the Gulf?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

John, great question. I might ask Danny if he could handle the cost side of it. I know you well enough to know you probably have looked back at our March investor information. You can see that the expected internal rates of return that the tiebacks give us compete very favorably with our 2 large onshore positions. So the rate of return because of the cost being minimal for a tieback into an existing infrastructure is part of the equation here for what makes so much sense from a portfolio perspective, but I think your questions are spot on, and I'd like Danny to address them.

Daniel E. Brown - *Anadarko Petroleum Corporation - SVP of International and Deepwater Operations*

Thanks, John. Yes, as Al mentioned, the rates of returns we have, so in terms of competitiveness, these are very attractive opportunities for us within the portfolio. 75%-plus, we got over 30 of these things within sort of in the cupboard that we can go execute upon. We actually have a deeper bench than that, but that's sort of our high-graded list, and that's for tiebacks, and so we also have platform opportunities that have very high rates of returns that you'll see us executing on as we move forward. Costs within the Gulf of Mexico are sort of stable and perhaps somewhat even deflationary if you think about the rig cost out there. So, obviously, as you think about tiebacks, the reservoir that you're drilling into, the length of tiebacks distance from the platform is going to vary, so the individual costs for specific project will vary. So I think when I think about it I think

of the rate of return on the margin that we're going to get mostly in and, as Al mentioned, these sort of average rates of returns on these opportunities the 30 we've mentioned is over 75% at $55, so very competitive.

John P. Herrlin - *Societe Generale Cross Asset Research - Head of Oil and Gas Equity Research and Equity Analyst*

Great. I was wondering if there was more cost deflation whether that was just going to help the returns. Next question for me is on the big data and obviously, you can't answer this necessarily, but your big data approach you're trying to improve your NPVs what you're doing, are we talking major step changes or, say, 15% to 20% changes? What kind of ballpark do you think you'll get out of the onshore efficiency by really working with big data?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, to use the baseball analogy, it's probably top of the first. So we've got a lot of baseball still to be played there, John. All we can say is the early work that we're being able to utilize through our Advanced Analytics & Emerging Technology group is giving us a lot of belief that, that will be a big move in cost once we're able to employ exactly what would end up being the final way in which that data is used or applied. But we, like others, have a lot of data that historically has probably not been used well. As we start to catch up to the Silicon Valley and its approach to the way in which technology can use data, I have every expectation that we and others will start to see material changes in the way in which our industry thinks about drilling wells.

Operator

The next question comes from David Heikkinen of Heikkinen Energy Advisors.

David Martin Heikkinen - *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

Just a quick question and follow-up. You all have oil gathering infrastructure, but I was curious about your thoughts around gathering lines versus trucking in the Permian and any limitations around trucking or stabilization with higher gravity and how that impacts development.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, in general, this oil is not as volatile as you may be thinking of in other shale plays so the gravity and the volatility is a whole lot less. You're dealing more with a black oil here. Consequently, we and others have had the benefit of that are dealing with different equations than some that, I'll say, have a lot more volatility associated with a higher gravity in the crude and the mix of what their yield stream looks like. On average, David, our yield stream coming out of these wells is somewhere around 70% black oil, so we are certainly trying where we can to use pipe to evacuate but we've not run into a problem of getting early success with our wells into a pipeline if we have to truck as well.

David Martin Heikkinen - *Heikkinen Energy Advisors, LLC - Founding Partner and CEO*

Okay. Helpful. And then the -- just following through on kind of appetite for taking down firm. You said you'd be in an anchor tenant. I mean, does that lead to an expectation, I guess, of taking firm transportation out of the basin both oil and gas how should think about the second half of the year and going forward?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, we've not entered into anything definitively at this point, so the best way I can say is that we certainly believe in controlling our takeaway, and how we go about contracting for that is still being negotiated. But I think being able to control your takeaway and understanding what volumes

can be moved and at what price would lead us to wanting to be an anchor tenant or a large component of any of these hydrocarbons that are moved. We've done that before. I think I would point to what we've done in the DJ with takeaway capacity there as maybe an example of things that we're thinking about here in the Delaware.

Operator

The next question comes from Bob Brackett of Bernstein Research.

Robert Alan Brackett - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

In coming back and trying to understand Shenandoah a bit more, what happens if you do nothing on Walker Ridge 51 and 52 for the next year?

Ernest A. Leyendecker - *Anadarko Petroleum Corporation - EVP of International & Deepwater Exploration*

Bob, this is Ernie. We have -- we're under a continuous operations under the terms and leases because that is expired. So it requires us to conduct another operation within that period. So we'll be looking, as we talked about and disclosed, at what our options are between now and that period, which is later this year.

Operator

The next question comes from Ryan Todd of Deutsche Bank.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Maybe one more follow-up in the Gulf of Mexico. I believe there's a Heidelberg impairment as well. Can you -- how does this impact? Or is there any change to the potential go-forward plans for a second phase of development at Heidelberg?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, we've got very successful most recent well we drilled there. The charge we took again was accounting convention-driven. I think you probably have seen most of the other partners in the Heidelberg take charges in prior periods. Consequently, I wouldn't take the accounting convention charge to be a commentary on the spar or what we're seeing certainly with this last well we drilled. But we also see the Heidelberg's spar having tremendous opportunities for tiebacks, either from our own drilling or from those as an industry because of its location. And I think as we've talked about March, and I'll just reiterate here, our ability to reach out and tie back is substantially higher than it was 2 years ago, and we're starting to see through the technological improvement the ability to increase that radius even further. So I think the location of that spar is quite advantageous if it's just more production handling agreement perspective.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Okay. And maybe one more on CapEx. 1Q CapEx came in at the low end of the guide. Full year CapEx for '17 is still in line. Can you talk a little bit about maybe any efficiencies that you saw in the quarter? I would expect it to ramp directionally over the course of the year as activity increases, but are you seeing any better-than-expected efficiencies or any upside pressure one way or the other on CapEx and cost relative to your base case expectations?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Yes. And you should be -- I know you fully appreciate the shortcomings of being able to look at things quarter-to-quarter and drawing conclusions from that. So when you look at a quarterly spend versus an expected annual spend, I think you just have to recognize that's where we were based upon the timing of certain spending that occurred in that quarter. And over the long haul once we see ourselves either outspending that, we'll communicate it or increase as the case may be if we see ourselves wanted to increase our capital spending, but the quarter-to-quarter movements, I wouldn't take a whole lot of concern in it, just simply because we, like others, are finding ways to improve our efficiency but sometime, it's just the timing of that spend in a particular quarter that might leave you with an impression that we're being good or bad relative to our expectations for capital for the full year.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

So everything in line with expectations currently?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

We have no reason at this point to think that we would want to change our capital plans, but if we see reasons to want to improve or increase, rather, our capital spending as the year goes on, we'd certainly be happy to come back and talk to you about that.

Operator

The next question comes from Paul Sankey of Wolfe Research.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Obviously there's tremendous, should we call it, noise with due respect around the stock at the moment. Well, ultimately you've got a relatively low leverage by -- certainly by the historic stance of Anadarko. I think the perception is that aside from the current use flow, you're likely to make an acquisition or accelerate growth with the additional balance sheet strength, especially given the stock price performance. Can you just address that perception?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

And Paul, appreciate your question. And again, we at Anadarko are very concerned and saddened by the events that you made reference to in Colorado.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

I must say my condolences and all due respect I don't want to sound in any way -- understate what's going on there.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

I'll just second that. I think it's very tragic and very concerning. As it relates to using our capital, I'll reiterate what I've said a few other times in different settings. I think our primary belief is -- our belief is our primary use will be to increase drilling when we think that's appropriate so I would think of it is through the drillbit first. If we see acquisitions that improve our ability to drill our current leases more efficiently or allows us to increase the laterals, improve the estimated ultimate recoveries, those would be the things that would be of interest to us. I think just getting larger in a different part of the basin would be not as -- not very interesting, not to say that the acquisitions that others have made aren't good acquisitions. I'm sure they are quite good. I think our primary interest if we were thinking about it in an M&A context would be if we can improve our existing

leasehold, if we can improve the estimated ultimate recoveries and create a better footprint from the one that we have today. And so that would be sort of the opportunities that we would see ourselves looking at for M&A. But with respect to the cash that we've got, that cash I suspect will largely go to additional drilling and infrastructure buildout to be able to improve the productivity of what we have today in the future.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

And Al, would you generally want to run a lower level of leverage than you have in the past as kind of a result of the downturn?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

No. I can appreciate the question and why that might be asked by some. I think when you look at it from a net-debt basis taking the cash against the debt and then even on a discounted basis, if you felt like there's a illiquidity discount and you applied the holdings that we have in Western Gas as marketable securities against that, you'll see that we actually have a very underlevered balance sheet when you net those 2 securities, either the cash or the marketable securities associated with Western against the debt position. So I'm not sure that I'm overly concerned about anything other than wanting to find good places to put that cash to go to work.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil and Gas Analyst*

Understood. And then I've kind of got to go there, with due respect. One of the specific orders that affects you? I think I understood that the main one is going to be the inspection of all wells within 1,000 feet of an inhabited dwelling. Can you just tell us what actually needs to be done from here?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, look, I fully understand the question you've asked and others have asked as it relates to this topic but I think we, like others in our industry, are trying to understand and comply with the request of the governor last night, and it's pretty early days for us to be able to make a comment on exactly what that's going to look like, given the order came out late yesterday afternoon.

Operator

The next question comes from Evan Calio of Morgan Stanley.

Evan Calio - *Morgan Stanley, Research Division - MD*

First, in a follow-up to Colorado and I also appreciate the outcome of Colorado's tragic, sensitive and unclear. And in the location of the well and the proximity house doesn't appear to be direct cause, rather P&A or some intervening act of another party, yet can you provide any sensitivities on your 4,000 DJ location count to any changes in setback rules? I know that was reviewed or potentially contemplated in connection with the failed ballot initiatives in 2012 and 2014, maybe any sensitivity on interval different than 500.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

I'm not sure I fully understand your question. Are you asking me do I think that other ballot proposals that have been proposed in the past election cycles would come back around?

Evan Calio - *Morgan Stanley, Research Division - MD*

No. No, sorry. I wasn't asking for what your view to an outcome here was but if there were to be any regulatory change as a result, what is the sensitivity of your location count to any changes if there were to be any changes in the setback performance, also observing what the apparent cause may or may not be.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, Evan, at this point, the rules and regulations promulgated by the regulator are what they are, and we're very much in compliance with those. For me to answer your question, I would have to understand what the regulators contemplate beyond what's in place today. So all I can say is we are very compliant with the regulations that are being currently applied by the Colorado regulator.

Evan Calio - *Morgan Stanley, Research Division - MD*

Right. I know it was a tougher question. I thought maybe you might have analyzed that with the 2,500-foot setback proposal couple of years back. My second question, in second quarter CapEx, I know it includes other $138 million. I know that's been a newer line item in the last 2 quarter op reports that aggregates now $250 million. I understand it's exploration play. Any context on that figure whether its drilling, acreage acquisitions or how might that quarterly spend compare over a longer period of time since we only now kind of newly introduced disclosure item?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Okay. Darrell, you want to address that?

Darrell E. Hollek - *Anadarko Petroleum Corporation - EVP of Operations*

Yes. The only thing I could say at this point is that's really not going toward drilling dollars. We're going to continue to look at other opportunities around our 2 big plays as to what could be maybe next, and so we're looking right now, but those aren't drilling dollars. I would leave it at that.

Operator

The next question comes from Jeffrey Campbell of Tuohy Brothers.

Jeffrey Leon Campbell - *Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration and Production, and Oil Services*

Regarding the enhanced completions in the DJ, when you cited a 10% oil chem improvement, was that due to an increase in your oil cut per BOE or was it the BOE increase had a stable mix, but it was such that 10% more oil per well is being produced cumulatively?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Brad, would you like to take that question?

Bradley J. Holly - *Anadarko Petroleum Corporation - SVP of U.S. Onshore Exploration and Production*

It's still early days in that, and we put, I think, like 100 days of production there. So we're seeing a flatter decline for a longer period of time, and it's still early but we're analyzing that and seeing what the long-term effects of that is going to be.

Jeffrey Leon Campbell - *Tuohy Brothers Investment Research, Inc. - Senior Analyst of Exploration and Production, and Oil Services*

Okay. My other question is a little bit more high level. In the Permian, some prominent operators are announcing plans for what I call mega pads. They're going to -- they're proposing to develop multiple zones at the same time. Others plan to develop all the locations in the particular zone at one time. And either way, the plans seem to seek to improve efficiency economics and in particular to avoid staggered well development with production shut-ins. I was wondering first of all, do you favor one approach over the other? And could you provide some color perhaps regarding what you see the future development to be for the Wolfcamp B, C, D, Bone Spring and Avalon Shales that you've identified as prospective on your acreage?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Great question and you're right. We're seeing a lot of industry doing different things these days as they try to figure out how to be more efficient off of pad location. I'm not sure it's any different than round peg, square hole. Everybody's got a little bit different equation but what they're working on. A lot of that has to do with how the stack pays actually line up. In our current thinking, we're planning to move to pad drilling in the second half of the year and try to get that as close to infrastructure as possible. I think as we consider that, we'll probably have more details at our second quarter earnings call than we do this morning. I hope you'll appreciate the fact that as we move into development there, we'll probably be more interested in talking about that and how are going to apply it but it certainly looks like the second half of the year, we will move to pad drilling, but that is not for the types of plays others are doing. I mean, I don't see us developing multi-zones from a single pad location at this point simply because of what we believe to be extremely good rock coming out of our primary objective and wanting to be as effective and as efficient with that primary objective zone versus others. That's not to say that we won't drill Avalon and Bone Spring where we think it's appropriate, but the Wolfcamp for us at this juncture is primarily what we're looking at. And I'd ask you to think back when you can to what we covered in March on our call at that time talking about what we saw in the way of -- the potential for prospectivity with those other zones and what we think that means in the way of resource potential but in terms of near-term capital, the primary Wolfcamp zone that we were targeting will be the one we'll be spending our capital on.

Operator

The next question comes from Robert Christensen of Drexel Hamilton.

Robert Lee Christensen - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Just followed with interest Shenandoah all these years and the delineation and I simply can appreciate the accounting convention and rules, but you have poked a lot of holes out there. You've put a lot of science on it. What would you be walking away from in the way of probable and possible reserves from what you've gleaned to date off of a bunch of years of exploration? What will we be talking about here?

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Well, Robert it's an understandable question for which I got to tell you I couldn't begin to answer that simply because with this juncture, all we have is drilling results. We've not estimated what we've believe to be probable or possible recoveries, some of it because of the things we have been doing to date have been more in the lines of just the science associated with trying to understand the reservoir better. And I think given the information we gave you in certainly this ops report and those before, you can appreciate the fact that it will be very difficult cost for us to estimate that, given where we are in the drilling process. We’re certainly in the campaign associated with understanding that better.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to Al Walker for any closing remarks.

R. A. Walker - *Anadarko Petroleum Corporation - Chairman, CEO and President*

Thank you, and let me end with what I started with and just say we are very saddened by the events in Colorado. We're going to continue to work very hard to understand it better. We are very pleased with our first quarter results. We believe the things that we talked about in March are certainly coming together operationally. We also think that the things you're seeing us do both in the Delaware and the DJ are coming to fruition, and I would anticipate as we continue to see as improving commodity price environment our commitment to additional drilling in the Delaware could be one and the same. Consequently, we really are pleased with what we're seeing from the first quarter and through the course of the next 90 days. Look forward the next time we get together we will have some additional detail. Thank you, and thanks for joining us this morning. Appreciate it.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.